

CITY AUDITOR'S OFFICE



AUDIT OF FINANCIAL SERVICES GRANT FISCAL ADMINISTRATION

Report No. CAO 601-0607-06

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**AUDIT OF
FINANCIAL SERVICES
GRANT FISCAL ADMINISTRATION
CAO 601-0607-06**

BACKGROUND

The City of Las Vegas receives numerous grant awards each year. Federal grant awards for the fiscal year ended June 30, 2005 (per the Schedule of Expenditures of Federal Awards) were:

Program or Award Amount	\$114,095,820
Federal Disbursements/Expenditures	21,648,402

For this same fiscal year, State Awards/Bonds were \$274,905 and other Contracts/Awards were \$1,175,810.

Those City departments that benefit from grant awards are responsible for the day-to-day oversight. This includes program planning, grant implementation, grant related regulation compliance, sub recipient contracting, project budgeting, and program monitoring.

The Department of Finance and Business Services through its Grant Fiscal Administration division provides grant fiscal oversight and year end revenue reporting. The responsibilities of this division include:

- Timely submittal of reimbursement requests to the awarding agency
- Financial document review
- Reconciliation of award revenue and expenditures
- Submittal of the annual budget for all grants
- Preparation of the Schedule of Expenditures of Federal Awards

Federal grant awards are subject to numerous guidelines including:

- ***Circular A-87*** Cost Principles for State, Local, and Indian Tribal Governments
- ***Circular A-102*** Grants and Cooperative Agreements with State and Local Governments
- ***Circular A-133*** Audits of States, Local Governments, and Non-Profit Organizations

Grant awards may also have specific requirements as stipulated in the grant agreement.

OBJECTIVE

Our objective in completing the audit of Grant Fiscal Administration was to ensure that adequate policies, procedures, and practices are in place for the fiscal monitoring of grant awards.

SCOPE AND METHODOLOGY

Our fieldwork was performed in accordance with generally accepted government auditing standards. Procedures included:

- Research of relative guidelines
- Interviews with applicable city employees
- Tests of established management controls

The scope of our audit was limited to judgmentally selecting grant awards from the fiscal year 2005/2006 Master Grant Schedule maintained by Grant Fiscal Administration. The last day of fieldwork was July 25, 2006.

FINDING AND RECOMMENDATION

During our audit, we noted that adequate policies, procedures, and practices are in place for the fiscal monitoring of grant awards. However, we identified one issue management should address relative to Grant Fiscal Administration. This issue is summarized in the following section. No other issues were identified for discussion with management.

Allocation of Indirect Costs for Federal Grants

Criteria:

OMB Circular A-87 provides guidelines on the allocation of both direct and indirect costs for Federal grants, as noted below:

- The principles are for the purpose of cost determination and are not intended to identify the circumstances or dictate the extent of Federal governmental unit participation in the financing of a particular program or project. The principles are designed to provide that Federal awards bear their fair share of cost recognized under these principles...(OMB Circular A-87)
- The cost of providing service includes both direct and indirect costs. Direct costs are those that can be identified specifically with a particular final cost objective. Indirect costs are incurred for a common or joint purpose benefiting more than one cost objective. (OMB Circular A-87).
- Indirect Costs: (OMB Circular A-87 Attachment E)
 - Indirect costs include: (a) the indirect costs originating in each department or agency of the governmental unit carrying out federal awards and (b) the cost of central governmental services distributed through the central services cost allocation plan.
 - Indirect costs are normally charged to Federal awards by the use of an indirect cost rate. A separate indirect cost rate(s) is usually necessary for each department or agency of the governmental unit claiming indirect costs under Federal awards.
- Central Service Cost Allocation Plan: (OMB Circular A-87 Attachment C)
 - Most governmental units provide certain services, such as motor pools, computer centers, purchasing, accounting, etc., to operating agencies on a centralized basis.
 - Since federally supported awards are performed within the individual operating agencies, there needs to be a process whereby these central service costs can be identified and assigned to benefited activities on a reasonable and consistent basis. The central service cost allocation plan provides that process.
- Indirect Cost Rate Proposal: (OMB Circular A-87 Attachment E).
 - The documentation prepared by a governmental unit or subdivision thereof to substantiate its request for the establishment of an indirect cost rate.

Condition:

The City of Las Vegas only allocates direct costs to Federal grant awards. Before indirect costs can be allocated, an indirect cost rate proposal must be completed and approved. This process requires a commitment of agency resources.

Local government agencies that currently have approved indirect cost allocation plans were contacted, as noted below:

<u>Agency</u>	<u>Reporting Period</u>	<u>Federal Disbursements / Expenditures</u>
City of San Francisco, CA	FY ended June 30, 2005	\$676,573,679
City of Phoenix, AZ	FY ended June 30, 2005	\$283,375,971
Denver, CO	CY ended December 31, 2004	\$252,071,951
Maricopa County, AZ	FY ended June 30, 2004	\$112,467,209
Multnomah County, OR	FY ended June 30, 2005	\$67,505,463
City of Milwaukee, IL	CY ended December 31, 2004	\$57,587,291
City of Las Vegas, NV	FY ended June 30, 2005	\$21,648,402
Vancouver, WA	CY ended December 31, 2004	\$6,735,001
City of San Diego, CA		Has not been released

The Federal Disbursements/Expenditures amounts were taken from each agency's most recently released Schedule of Expenditures of Federal Awards.

The results of discussions with these agencies identified benefits as well as costs associated with the practice of allocating indirect costs, as follows:

- The agencies indicated that calculating the true cost of providing service enables management to determine the full cost associated with committing resources to projects in relation to the financial benefit received from accepting grant awards. This knowledge enables management to make informed decisions on whether to accept or reject grant proposals.
- The agencies stated that additional benefits are derived from the calculation and use of indirect cost rates as noted below:
 - Seven agencies use the calculated indirect cost rates as a tool to allocate indirect costs for purposes other than Federal grants.
 - One agency indicated they recovered approximately \$12.2 million from enterprise funds.
 - One agency indicated they booked \$8 million indirect expenditures. Over \$7 million of the amount was recovered from outside sources.
 - One agency indicated they use the approved rates to calculate overhead costs for grant required in-kind matches.
- The agencies noted the following relating to resource commitment requirements:
 - Six agencies prepare the proposal internally.
 - One of the agencies listed above is currently having a consultant evaluate the process to streamline and make improvements.
 - Two agencies have a consultant prepare the proposal.
 - Four agencies indicated the data collection phase is time consuming. This phase requires the resources of one employee, on a part time basis. This effort occurs over a three to four month period.

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Grant Fiscal Administration
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July 25, 2006

Cause:

Current practice is to only allocate direct costs.

Effect:

The true cost of accepting federal grant awards is unknown.

Recommendation:

City Management should review the benefits and costs identified in this audit for an indirect cost allocation plan for Federal Grant Awards and evaluate whether such a plan would be beneficial to the City.

MANGEMENT RESPONSE

Allocation of Indirect Costs for Federal Grants

Recommendation:

City Management should review the benefits and costs identified in this audit for an indirect cost allocation plan for Federal Grant Awards and evaluate whether such a plan would be beneficial to the City.

Management Plan of Action:

Financial Services Division will evaluate cost allocation methodologies and goals to develop a comprehensive cost allocation strategy.

Estimated Date of Completion:

Implementation in fiscal year 2008